

Message Text

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ACTION OPIC-06

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PASS OPIC FROM BOSTWICK

E.O. 11652: N/A

TAGS: EFIN, EINV, IS

SUBJECT: PROPOSED OPIC LOAN TO ELECTROCHEMICAL INDUSTRIES (IEF)

1. BOSTWICK MET WITH KOSLOFF, DYAN AND CANTONI OF EIF ON JULY 27 AND 28 AND BELIEVES MOST OUTSTANDING QUESTIONS HAVE BEEN SATISFACTORILY RESOLVED.

2. BEST PRESENT ESTIMATE OF PROJECT COSTS IS 65 MILLION DOLLARS. EIF WILL ANSWER HILL'S TELEX ON PROJECT COSTS AND FINANCING PLAN AFTER EIF ENGINEERING STAFF HAS REFINED LATEST BID DATA AND WITHIN SEVEN DAYS. EIF WILL AIRMAIL SUPPORTING SCHEDULES AND OTHER DETAILS TO HILL AFTER TLEEX IS SENT.

3. CONFUSION OVER EXIM BANK LOAN RESULTS FROM WAY LOANS TO APPROVED ENTERPRISES ARE HANDLED IN ISRAEL. WHEN COMPANY RECEIVES STATUS OF APPROVED ENTERPRISE, IT IS ENTITLED TO FOREIGN EXCHANGE FROM GOVERNMENT FOR ALL IMPORT REQUIREMENTS. THESE LOANS ARE ADVANCED TO THE APPROVED ENTERPRISE AND REPAYABLE AS LOCAL CURRENCY LOANS AND THE GOVERNMENT OR GOVERNMENT AGENCY MAKING THE LOAN BEARS THE EXCHANGE RISK. THUS, THE ORIGINAL IDBI COMMITMENT TO EIF WAS DENOMINATED IN LOCAL CURRENCY. IDBI RECENTLY DECIDED TO USE ITS QUOTE PROJECT LINE OF CREDIT UNQUOTE FROM EXIM BANK AND REQUESTED AN ADVANCE UNDER THE PROJECT LINE FOR EIF'S U.S. REQUIREMENTS. THE IDBI LOAN TO EIF, HOWEVER, IS STILL DENOMINATED AND REPAYABLE IN LOCAL CURRENCY. THE EXIM BANK CREDIT REPRESENTS APPROXIMATELY ALL OF THE PRESENTLY KNOWN U.S. IMPORTS OF GOODS AND SERVICES TO THE PROJECT.

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4. REGARDING IPIC LOAN/GUARANTEE, BEST ESTIMATE NOW IS THAT THIS WILL AMOUNT TO 6.5 TO 8.5 MILLION DOLLARS AND WILL BE FOR MACHINERY, EQUIPMENT AND ENGINEERING PROCUREMENT IN ISRAEL. KOSLOFF AND DAYAN STATED THAT THEY WILL BUY U.S. TO MAXIMUM EXTENT POSSIBLE AND THERE IS A GOOD POSSIBILITY THAT U.S. PROCUREMENT WILL BE INCREASED.

5. RE BANK'S JULY 22 MEMO; A1, A2 AND B1 TO BE TELEXED NEXT WEEK WITH SUPPORTING DETAILS AIRMAILED SAME DAY; B2 - LOCAL CURRENCY LOAN REPAYABLE IN LOCAL CURRENCY WITH INTEREST AT 10 PERCENT; B3 - GOI IS THE LENDER, INTEREST AT 6 PERCENT REPAYABLE BY EIF IN LOCAL CURRENCY WITHIN ONE YEAR, EXTENDABLE ON BASIS EIF'S ANNUAL PROJECTION OF EXPORTS; B4 - COMPLETED ON JULY 13, 1976, IN EQUIVALENT AMOUNT OF 5 MILLION DOLLARS; C - DR. CANTONI WILL BE OVERALL SUPERVISOR OF CONSTRUCTION AND RUN IN, PRESENT VCM AND PVC PLANT MANAGERS WILL MANAGE NEW FACILITIES; D1 - CHLORINE IS INSUFFICIENT AT PRESENT FOR PVC EXPANSION, BUT DOES NOT MAKE SENSE FOR THEM TO INCREASE PRODUCTION SINCE THEY WILL BE LOSING MAJOR CHLORINE CUSTOMER IN 2 YEARS AND THE BY-PRODUCT OF CHLORINE PRODUCTION IS CAUSTIC SODA, WHICH IS HARD TO STORE AND FOR WHICH THEY ANTICIPATE NO NEW CUSTOMER GROWTH; D2 - NONE AT ALL SINCE EDC IS QUITE EASY TO PRODUCE, SHIP AND STORE; E3 - EIF WILL MAIL NEXT WEEK; E2 - RESERVE FUNDS AND REINVESTMENT OF SURPLUS CAN BE TREATED AS CASH; DEFERRED EXPENSES IS A AMORTIZATION OF EXPENSES DURING CONSTRUCTION; DEPRECIATION IS ACCELERATED RESULTING IN NO TAX LIABILITY FOR FIRST FIVE YEARS AND IS EXPLAINED ON PP. 8 - 10 OF EIF ATTACHMENT TO BANK'S MEMO; E1 - EIF TO PROVIDE BY AIRMAIL.

6. JULY 28 MEETING WITH IDBI PRODUCED REACTION ON THEIR PART THAT THEY WOULD NOT BE ABLE TO PERMIT OPIC SHARE THEIR EXCLUSIVE FIRST CLAIM ON EIF ASSETS FOR VARIETY OF REASONS, BUT SOMETHING MIGHT BE WORKED OUT IF WE COULD PASS OPIC LOAN THROUGH IDBI TO EIF. TOLD THEM "SORRY, NO DEAL". THEY ARE RE-THINKING THEIR POSITION. (KOSLOFF REQUESTED THAT WE LET HIM KNOW IF WE ENCOUNTERED ANY PROBLEMS WITH IDBI; HE OBVIOUSLY WILL HAVE A LOT TO SAY ABOUT HOW IDBI AND OPIC CREDITS ARE ARRANGED).

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7. COMMENT: EIF CREDIT LOOKS MORE AND MORE LIKE A VERY SOLID ONE FOR OPIC AND AN EXCELLENT PROJECT FOR OUR FIRST FINANCING IN ISRAEL.

8. PLEASE POUCH 75 COPIES EACH OF ANNUAL REPORT, FINANCE QUESTIONS AND ANSWERS AND NEW FINANCE HANDBOOKS TO EMBASSY, ATTN: HILLEL.

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